

DETAILED CONTENTS

Preface to the Second Editionxiii

1 Why Health Economics?1

 1.1 Why Health Economics?1

 1.2 Economics as a Map for Decision Making2

 1.3 Special Challenges for Healthcare Managers3

 1.3.1 Risk and Uncertainty5

 1.3.2 Insurance5

 1.3.3 Information Asymmetries6

 1.3.4 Not-for-Profit Organizations6

 1.3.5 Technological and Institutional Change8

 1.4 Turmoil in the Healthcare System8

 1.4.1 The Pressure to Reduce Costs8

 1.5 What Does Economics Study?10

2 An Overview of the U.S. Healthcare System.....17

 2.1 Input and Output Views of Healthcare17

 2.1.1 The Input View18

 2.1.2 The Output View20

 2.2 Health Outcomes20

 2.3 Outputs of the Healthcare System22

 2.3.1 Why Is How Much We Spend on Healthcare Interesting?22

 2.3.2 The Shifting Pattern of Healthcare Spending25

 2.4 Trends Reshaping the Healthcare System 27

 2.4.1 Growth of the Healthcare Sector27

 2.4.2 Shrinking Share of Direct Consumer Payments30

 2.4.3 Growth of the Uninsured31

 2.4.4 Expansion of the Outpatient Sector32

 2.4.5 Contraction of the Inpatient Sector32

 2.4.6 Rapid Technological Change34

3 An Overview of the Healthcare Financing System39

 3.1 Introduction39

 3.1.1 Paying for Medical Care39

 3.1.2 Indirect Spending40

 3.1.3 The Uninsured41

3.2	What Is Insurance, and Why Is It so Prevalent?	42
3.2.1	What Insurance Does	42
3.2.2	Adverse Selection and Moral Hazard	43
3.2.3	Medicare as an Example of Complexity	44
3.3	The Rise of Managed Care	46
3.3.1	How Do Insurance Plans Manage Care?	49
3.4	Payment Systems	50
4	Describing, Evaluating, and Managing Risk	61
4.1	Introduction	61
4.2	Describing Potential Outcomes	62
4.3	Evaluating Outcomes	64
4.3.1	Risk Preferences	67
4.3.2	Decision Analysis	69
4.3.3	Sensitivity Analysis	70
4.4	Managing Risk	70
4.4.1	Diversification	71
5	Understanding Costs	77
5.1	Understanding Costs	77
5.2	Cost Perspectives	80
5.3	Vocabulary	81
5.4	Factors That Influence Costs	83
5.4.1	Outputs	83
5.4.2	Input Costs	84
5.4.3	Technology	85
5.4.4	Efficiency	86
5.5	Variable and Fixed Costs	86
6	The Demand for Healthcare Products	93
6.1	Introduction	94
6.1.1	Indirect Payments and Insurance	95
6.2	Why Demand for Healthcare Is Complex	96
6.3	Demand Without Insurance and Healthcare Professionals	97
6.3.1	Changes in Price	97
6.3.2	Factors Other Than Price	99
6.4	Demand with Insurance	100
6.5	Demand with Advice from Providers	102
7	Elasticities	111
7.1	Introduction	111
7.2	Elasticities	112
7.3	Income Elasticities	113
7.4	Price Elasticities of Demand	113
7.5	Using Elasticities	114

8	Forecasting	123
8.1	Introduction	123
8.2	What Is a Sales Forecast?	124
8.3	Forecasting	126
8.4	What Matters?	130
9	Supply and Demand Analysis	139
9.1	Introduction	139
9.1.1	Supply Curves	140
9.1.2	Demand Curves	140
9.1.3	Equilibrium	141
9.1.4	Professional Advice and Imperfect Competition	141
9.2	Demand and Supply Shifts	142
9.2.1	A Shift in Demand	144
9.2.2	A Shift in Supply	144
9.3	Shortage and Surplus	146
9.4	Analyses of Multiple Markets	148
10	Maximizing Profits	155
10.1	Introduction	155
10.2	Cutting Costs to Increase Profits	156
10.2.1	Cost Reduction Through Improved Clinical Management	156
10.2.2	Reengineering	158
10.3	Maximizing Profits	159
10.3.1	Incremental and Average Costs	160
10.4	Return on Investment	161
10.5	Producing to Stock or to Order	162
10.6	Not-for-Profit Organizations	163
10.6.1	Agency Problems	163
10.6.2	Differences in Goals	163
10.6.3	Differences in Costs	164
11	Pricing	169
11.1	Introduction	169
11.2	The Economic Model of Pricing	170
11.3	Pricing and Profits	171
11.4	Price Discrimination	173
11.5	Multi-Part Pricing	175
11.6	Pricing and Managed Care	176
12	Asymmetric Information and Incentives	183
12.1	Asymmetric Information	183
12.2	Opportunism	184
12.2.1	Remedies for Asymmetric Information	185
12.2.2	The Special Challenges for Healthcare	185
12.2.3	Signaling	186

12.3 Incentive Design for Providers	187
12.3.1 Insurance and Incentives	190
12.4 Limits on Incentive-Based Payments	191
12.4.1 Risk.....	191
12.4.2 Complexity	191
12.4.3 Opportunism	191
12.4.4 Team Production	192
12.5 Incentive Design for Managers.....	193
13 Economic Analysis of Clinical and Managerial Interventions.....	201
13.1 Introduction	201
13.2 Cost Analysis.....	203
13.2.1 Identifying Cost Perspective	203
13.2.2 Identifying Resources and Opportunity Costs.....	204
13.2.3 Direct and Indirect Costs	204
13.3 Types of Analysis.....	205
13.4 CMA: Cost-Minimization Analysis	207
13.5 CEA: Cost-Effectiveness Analysis	207
13.6 CBA: Cost-Benefit Analysis	208
13.7 CUA: Cost-Utility Analysis	210
14 Profits, Market Structure, and Market Power	219
14.1 Introduction	219
14.2 Rivalry Among Existing Firms.....	221
14.3 Customers' Bargaining Power	223
14.4 Entry by Potential Rivals	223
14.5 Market Structure and Markups.....	226
14.5.1 Markups.....	226
14.5.2 The Impact of Market Structure on Markups.....	227
14.6 Market Power and Profits.....	227
14.6.1 Collusion	228
14.7 Product Differentiation and Advertising	229
15 Government Intervention in Healthcare Markets	237
15.1 Government Intervention in Healthcare	237
15.1.1 On the Virtues of Markets	238
15.1.2 Information Processing	238
15.1.3 Static Resource Allocation	239
15.1.4 Dynamic Resource Allocation.....	240
15.2 Market Failure	241
15.2.1 Externalities	241
15.2.2 Public Goods	243
15.2.3 Imperfect Competition.....	245
15.2.4 Imperfect Information and Incomplete Markets	246
15.2.5 Natural Monopoly.....	247
15.2.6 Income Redistribution	247

15.3 Remedies	249
15.3.1 Assignment of Property Rights	249
15.3.2 Taxes and Subsidies	250
15.3.3 Public Production	250
15.3.4 Regulation	251
16 Regulation	257
16.1 Introduction	257
16.2 Market Imperfections	258
16.2.1 Insurance	259
16.2.2 Market Power	259
16.2.3 Externalities	259
16.3 Rational Consumer Ignorance	260
16.4 The Interest Group Model of Regulation	261
16.4.1 Limiting Competition	262
16.4.2 Licensure	262
16.4.3 Regulation as a Competitive Strategy	262
16.5 Regulatory Imperfections	264
16.6 Market Responses to Market Imperfections	265
16.6.1 Tort and Contract Law	266
16.6.2 Information Dissemination	266
16.6.3 Contracts	267
16.7 Implications for Managers	269
17 Strategic Behavior	273
17.1 Introduction	273
17.2 Cooperative Games	274
17.3 Noncooperative Games	276
17.4 Dominant Strategies	277
17.5 Games Without Dominant Strategies	279
17.6 Repeated Games	280
17.7 Credible Threats and Commitments	281
Glossary	289
Index	295
About the Author	307